

THAKUR COLLEGE OF SCIENCE & COMMERCE
(AUTONOMOUS)

FYBMS – FINANCIAL ACCOUNTING

SEMESTER – I

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Module 1 - Accounting Standards issued by ICAI

1. Meaning of Accounting Standards

Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of:

recognition,

measurement,

treatment,

presentation and

disclosure of accounting transactions in the financial statements.

2. Objective of Accounting Standards

The objective of Accounting Standard is to standardize different accounting policies with a view to eliminate the non-comparability of financial statements and thereby improving the reliability of financial statements, and to provide a set of standard accounting policies, valuation norms and disclosure requirements.

3. Benefits of Accounting Standards

Standard reduce to a reasonable extent or eliminate altogether confusing variations in accounting treatment used to prepare financial statements.

(i) Accounting standards may even call of disclosure of certain information which may not be required by law but such information might be useful for the general public, investors and creditors

(ii) The application of accounting standards would at least moderately/facilitate comparison of financial statements of companies in different parts of the world and also with in the country However, it is to be noted that different countries, may adopt different accounting standards according to their needs and in such context comparison between different companies will be less facilitated.

4. Limitation of Accounting Standards

- i. Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.
- ii. There may be a trend towards rigidity and away from flexibility in applying the accounting standards.
- iii. Accounting Standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

5. List of Accounting Standards & date of Application

- AS 01- Disclosure of Accounting Policies
- AS 02- Valuation of Inventories
- AS 03- Cash Flow Statement
- AS 04-Contingencies and events occurring after Balance Sheet date.
- AS 05- Net profit or loss for the period, prior period Items, Changes in Accounting policies.
- AS 07- Construction Contract
- AS 08- Accounting for research & Development (withdrawn)
- AS 09- Revenue Recognition
- AS 10- Property, Plant & Equipment
- AS 11- The effect of Change in foreign Exchange rate
- AS 12- Accounting for Government Grant
- AS 13- Accounting for Investment
- AS 14- Accounting for Amalgamation
- AS 15- Employee Benefits
- AS 16- Borrowing Cost

- AS 17- Segment Reporting
- AS 18- Related party disclosure
- AS 19- Lease
- AS 20- Earning per share
- AS 21- Consolidation Financial Statement
- AS 22- Accounting for taxes on income
- AS 23- Accounting for investment in association in consolidated financial Statement
- AS 24- Discontinuing Operations
- AS 25- Interim Financial Report
- AS 26- Intangible Assets
- AS 27- Financial reporting of interest in joint venture
- AS 28- Impairment of Assets
- AS 29- Provisions, contingent Liability and contingent assets
- AS 30 & 31- Financial Instruments

AS 1 – Disclosure of Accounting Policies

1. Objective of AS 1

- To promote better understanding of financial statements through the disclosure of significant accounting policies, and the manner in which accounting policies are disclosed in the financial statements.
- To facilitate a more meaningful comparison between financial statement of different enterprises.
- To bring uniformity in disclosure of accounting policies by different enterprises, and ensure standards in the nature and degree of disclosure.

2. Meaning of Accounting Policies

It refers to:

- specific accounting principles, and
- method adopted by enterprises, in applying these principles in the preparation and presentation. financial statements.

Exp. 1

Principle

Providing depreciation on assets,

Method of applying principle

Straight Line, WDV or any other appropriate basis.

3. Needs of Disclosure

Accounting principle and method can differ between one enterprise and another in the area of :

- Recognition
- Treatment or valuation of assets, or
- Recognition of transaction or events.

hence disclosure is required.

4. Area in which different accounting policies are adopted

- i. Accounting convention followed.
- ii. Basis of Accounting ie. Historical or Current Cost
- iii. Valuation of Inventory.
- iv. Valuation of Investment.
- v. Valuation of fixed assets including revaluation.
- vi. Policies relating to depreciation of fixed assets
- vii. Translation of foreign currency transactions or items.
- viii. Treatment of Government Grant
- ix. Treatment of goodwill.
- x. Recognition of liability for retirement benefit.
- xi. Recognition of profit on long term contract
- xii. Apportionment of cost incurred on research and development.
- xiii. Treatment of preliminary or capital issue expenses.
- xiv. Treatment of lease rental income or lease rental payment.
- xv. Treatment of expenditure during construction.
- xvi. Treatment of contingent liabilities.

5. Fundamental Accounting Assumption

(1) Going concern Concept

Reporting entity is normally viewed to be continuing in operation in the foreseeable future, without there being any intention to either liquidate or close materially its scale of business operation.

(2) Accrual concept

Revenue and cost are recognized in the period in which they due or incurred and not when money is received or paid.

(ii) Consistency concept

There should be consistency of accounting treatment of comparable (similar) item, not only within each accounting period, but also from one period to another.

6. Financial indicators to be considered for evaluating the assumption of going Concern

- i. Negative net worth or negative working capital.
- ii. Fixed-term borrowings, approaching maturity without realistic prospects.
- iii. Adverse key financial ratios.
- iv. Substantial operating losses.
- v. Substantial negative cash flows from operations.
- vi. Arrears of discontinuance of dividends
- vii. Inability to pay creditors on due dates.
- viii. Difficulty in complying with the terms of loan agreements.
- ix. Change from credit to cash-on-delivery transactions with suppliers.
- x. Inability to obtain financial for essential new product development or other essential investments.
- xi. Entering into a scheme of arrangement with creditors for reduction of liability. 1

7. Consideration in the Selection of Accounting Policies

1. Primary consideration

True and fair view being kept in primary focus for adoption of accounting policies.

2. Other Consideration

(a) Prudence

It is the inclusion of degree of caution in the exercise of judgments needed in making estimates required under condition of uncertainty.

By applying prudence an enterprise does not recognize profit on the basis of anticipation. These are recognized only when realized. However all known losses should be provided for.

(b) Substance over form

Transaction should be recorded in the books on the basis of it's substance and not on the basis of it's legal form.

(c) Materiality

In the financial statement all the material item must be disclosed. Material item are those item the commission of which influence the decision of user of the financial statements.

8. Disclosure Requirements

All significant policies adopted in the preparation and presentation of financial statement. should be disclosed at one place should be part of the financial statements.

9. Changes in Accounting Policies: Dealt with in AS5

- An enterprise can change the accounting policies if it is not contrary to any law and accounting standards and provides evidence that change result into more fair presentation.
- However if such change may have a material effect in the financial statement of current accounting period or later period, such change should be disclosed.
- In the case of change in accounting policies which has material effect in the current period, the amount by which any item in the financial statement is affected by such change should also be disclosed to the extent ascertainable.

Accounting Standard 9 – Revenue Recognition

1. Objective of AS 9

- Revenue recognition is mainly concerned with the timing of recognition of revenue in the statement of profit and loss of an enterprise.
- The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction.
- When uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

2. Non-Applicability

- Revenue arising from construction contracts.
- Revenue arising from hire-purchase, lease agreements.
- Revenue arising from government grants and other similar subsidies.
- Revenue of insurance companies arising from insurance contracts.

3. Examples of Item not included in Revenue

- Realized gains resulting from the disposal of, and unrealized gains resulting from the holding of, non-current assets eg. appreciation in the value of fixed assets.
- Unrealized holding gains resulting from the change in value of current assets, and the natural increases in herds and agricultural and forest products.
- Realized or unrealized gains resulting from changes in foreign exchange rates and adjustments arising on the translation of foreign currency financial statements.
- Realized gains resulting from the discharge of an obligation at less than its carrying amount.
- Unrealized gains resulting from the restatement of the carrying amount of an obligation.

4. Meaning of Revenue

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise

- From the sale of goods
- From the rendering of services, and

- From the use by others of enterprise resources yielding interest, royalties and dividends.

Note: Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

5. Recognition of Revenue from Sale of Goods

(A) Basic condition for recognition of revenue from sale of goods

- The seller has transferred to the buyer the property in goods for a consideration, or
- Significant risks and rewards of ownership have been transferred to the buyer - where the seller retains no effective control over goods to a degree usually associated with ownership, and
- No significant uncertainty exists regarding the amount of consideration that will be derived from the sale of goods.

(B) Additional guidelines for recognition of revenue in special cases

i. Delivery is delayed at buyer's request and buyer takes title and accepts billing

- Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made.
- However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.

ii. Goods are sold subject to installation, inspection etc.

- Revenue should normally not be recognized until the customer accepts delivery and installation and inspection are complete.
- In some cases, however, the installation process may be so simple in nature that it may be appropriate to recognize the sale notwithstanding that installation is not yet completed.

iii. Sale on Approval basis

- Revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed.

iv. Guaranteed Sale

- In such circumstances will depend on the substance of the agreement. In the case of retail sales offering a Guarantee of "money back if not completely satisfied".
- It may be appropriate to recognize the sale but to make a suitable provision for returns based on previous experience. In other cases, the substance of the agreement may amount to a sale on consignment, in which case it should be treated as indicated below.

i. Consignment Sale

- Revenue should not be recognized until the goods are sold to a third party.

ii. Cash on Delivery Sales

- Revenue should not be recognized until cash is received by the seller or his agent.

iii. Instalment Payment

- Sales where the purchaser makes a series of instalment payments to the seller, and the seller delivers the goods only when the final payment is received.
- Revenue from such sales should not be recognized until goods are delivered. However, when experience indicates that most such sales have been consummated, revenue may be recognized when a significant deposit is received.

iv. Special Order and Shipments (Goods to be manufactured or to be delivered directly to third party)

- Revenue from such sales should not be recognized until goods are manufactured, identified and ready for delivery to the buyer by the third party.

v. Sale Repurchase Agreement

- Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date.
- For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

vi. Sales to intermediate parties

- Revenue from such sales can generally be recognized if significant risks of ownership have passed; however in some situations the buyer may in substance be an agent and in such cases the sale should be treated as consignment sale.

vii. Subscriptions for publications

Revenue received or billed should be deferred and recognized either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription.

viii. Instalment Sales

- When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. 153uer
- The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.

ix. Trade discounts and volume rebates

- Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue. Property vests in the Buyer before passing of title.

6. Revenue from Rendering of Services

(A) Recognition Principles Revenue from Rendering of Services should be recognized if following conditions are satisfied.

Condition 1: Performance of Services

The performance may consist of execution of one or more acts. It should be measured using either - (a) Completed service contract method, or (b) Proportionate completion method, whichever relates the revenue to the work accomplished.

Condition 2: Certainty of Amount

There is no significant uncertainty regarding the amount of consideration that will be derived from rendering the service

Condition 3: Certainty of Collection

It is reasonable to expect ultimate collection at the time of performance. Otherwise, revenue recognition should be postponed.

(B) Distinction between percentage completion and completed contract method

Points	Proportionate Completion Method	Completed Service Contract Method
Meaning	It is a method of Accounting, which recognises revenue in the P&L statement proportionately with the degree of completion of service under a Contract.	It is a method of Accounting which recognises revenue in the P&L statement only when the rendering of services under a contract is completed.
Act Performed	Performance consist of the execution of more than one Act.	Performance consist of the execution of a. One Single Act, b. Two or More Significant Acts
Treatment	Revenue is recognised proportionately based on Act performed.	Revenue is recognised only after the single or Final Act is fully performed.
Explanation	Revenue recognised under this method would be determined on the basis of a. Contract Value, b. Associated Cost c. Number of Acts or other suitable basis.	This method is relevant to the patterns of performance and accordingly revenue is recognised when the sale of final act takes place and the service becomes chargeable.

(C) Guidelines for recognition of revenue in special cases

i. Installation Fees

In cases where installation fees are other than incidental to the sale of a product, they should be recognized as revenue only when the equipment is installed and accepted by the customer.

ii. Advertising and insurance agency commissions

Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(iii) Financial service commissions

- A financial service may be rendered as a single act or may be provided over a period of time. Similarly, charges for such services may be made as a single amount or in stages over the period of the service or the life of the transaction to which it relates.
- Such charges may be settled in full when made or added to a loan or other account and settled in stages. The recognition of such revenue should therefore have regard to:
 - whether the service has been provided 'once and for all' or is on a "continuing' basis;
 - the incidence of the costs relating to the service;
 - when the payment for the service will be received.

(iv) Admission fees

- Revenue from artistic performances, banquets and other special events should be recognized when the event takes place.
- When a subscription to a number of events is sold, the fee should be allocated to each event on a systematic and rational basis.

(v) Tuition fees

Revenue should be recognized over the period of instruction.

(vi) Entrance and membership fees

- Revenue recognition from these sources will depend on the nature of the services being provided. Entrance fee received is generally capitalized.
- If the membership fee permits only membership and all other services or products are paid for separately, or if there is a separate annual subscription, the fee should be recognized when received.
- If the membership fee entitles the member to services or publications to be provided during the year, it should be recognized on a systematic and rational basis having regard to the timing and nature of all services provided.

7. Use of Enterprise resources by others

i. Interest

- Charges for the use of cash resources or amounts due to the enterprise.
- Interest accrues, in most circumstances, on the time basis determined by the amount outstanding and the rate applicable.
- Usually, discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

ii. Royalties

Charges for the use of such assets as know-how, patents, Trade Marks and copyrights.

Royalties accrue in accordance with the terms of the relevant agreement and are usually recognized on that basis unless, having regard to the substance of the transactions, it is more appropriate to recognize revenue on some other systematic and rational basis.

iii. Dividends

- Rewards from the holding of investments in shares.
- Dividends from investments in shares are not recognized in the statement of profit and loss until a right to receive payment is established.

Note: When interest, royalties and dividends from foreign countries require exchange permission and uncertainty in remittance is anticipated, revenue recognition may need to be postponed.

8. Effect of Uncertainties on Revenue Recognition

- Recognition of revenue requires that revenue is measurable and that at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.
- Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognized at the time of sale or rendering of service even though payments are made by instalments.
- When the uncertainty relating to collectability arises subsequent to the time of sale or the rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.
- An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits, the recognition of revenue is postponed.
- When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognized.

9. Disclosure Requirements

1) Requirement of AS 1

- The significant accounting policies adopted in revenue recognition.
- Changes, if any, in the accounting policies adopted.

2) Requirement of AS 9

The enterprise should disclose the circumstances in which Revenue Recognition has been postponed pending the resolution of significant uncertainties

3) Disclosure of Excise Duty

Turnover (Gross)	XXXX
Less: Excise Duty	<u>(XXXX)</u>
Net turnover	XXXX

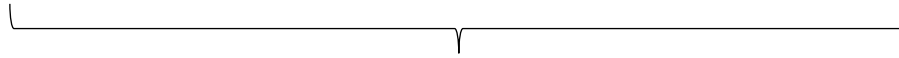
AS 10: Property , Plant & Equipment

AS 6

AS 10

Depreciation Accounting (Old)

Accounting for Fixed Assets (Old)



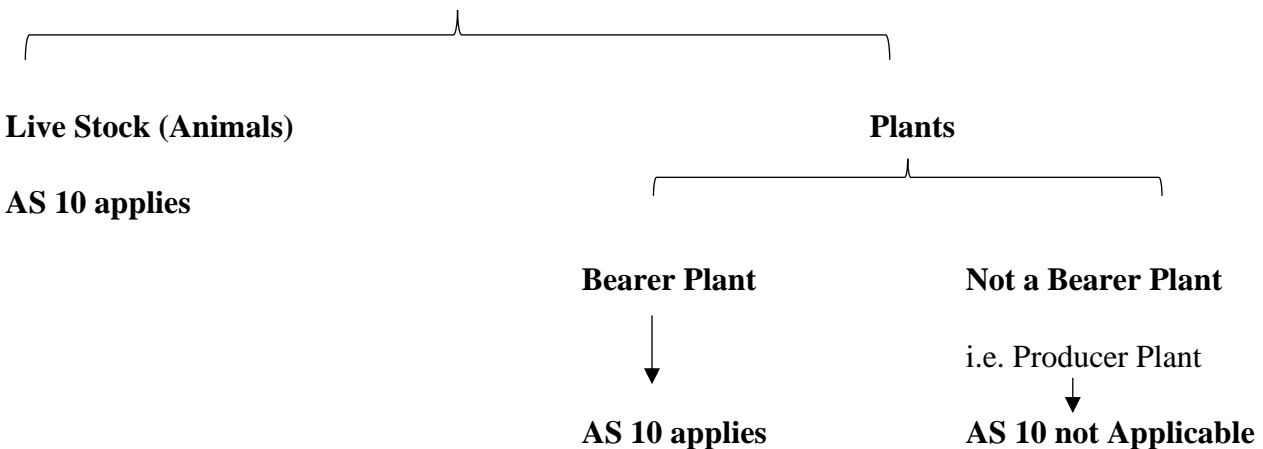
AS 10 – Property, Plant & Equipment

- **Applicability :** To all Tangible Assets
- **Exception:** 1. Biological Assets 2. Wasting Assets
- **What is Property , Plant & Equipment?**

An Asset should be:

1. Tangible
2. Held for – i. Rent
 ii. Administration Purpose
 iii. Production of Goods or Supply of Services
3. Held for Minimum 12 month.

→ **Biological Assets (Anything with Life)**

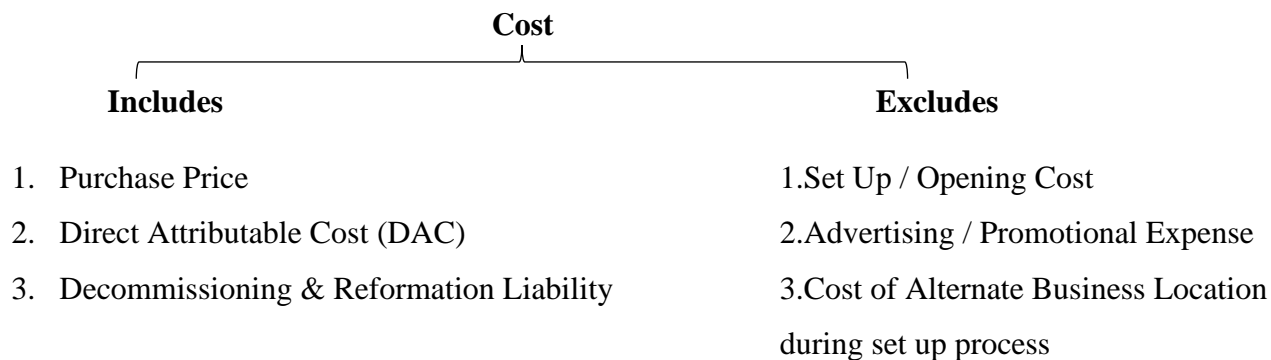
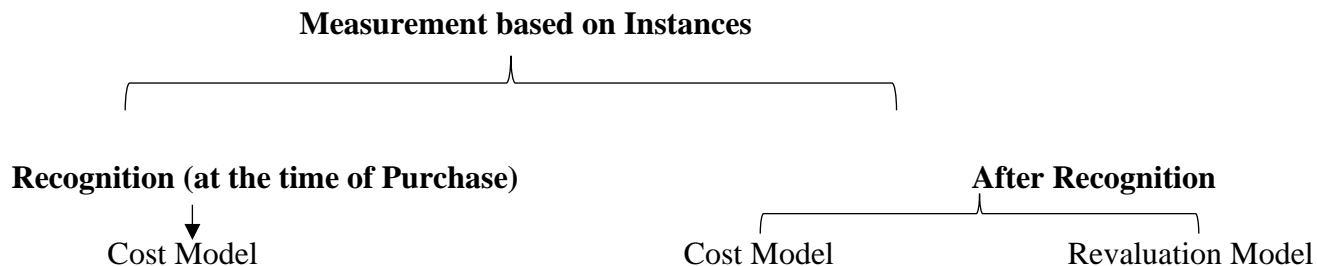


Bearer Plant : Agriculture Produce for more than 12 months. (The benefit can be taken for more than 12 months.)

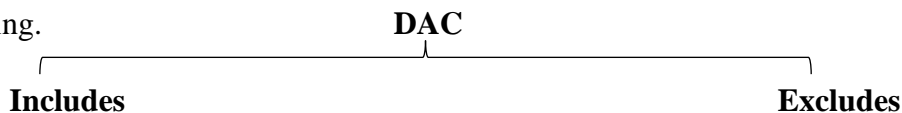
• **Recognition of Assets:**

- 1. Probable Future Economic Benefit
 - 2. Realizable Measurement
- } can be recognize as Asset

• **Determination of Carrying Amount:**



- **Decommissioning & Reformation Liability:** Land given by Govt. – Cost of Removal of project after completion of that project
- **Purchase Price** = Consideration + Import Duty / tax – Trade Discount / Rebate
- **DAC** = Any cost incurred to bring that asset to it's "Location & in condition" to make it capable for operating.

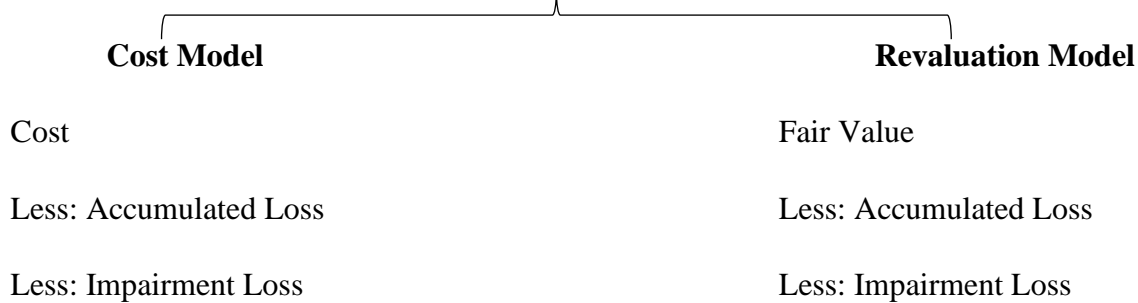


Site Preparation, Delivery & Handling, Installation & Assembly, Testing & Trial Run, Professional fees (for Installation)

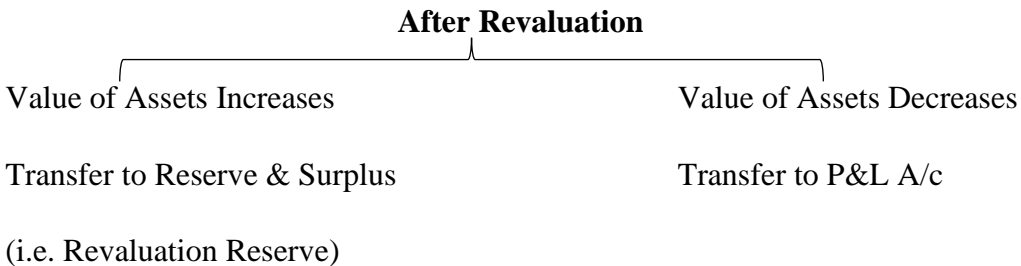
Any cost after it is capable of Operation, Initial Operating Loss, Relocation cost

After Recognition: Cost Model or Revaluation Model.

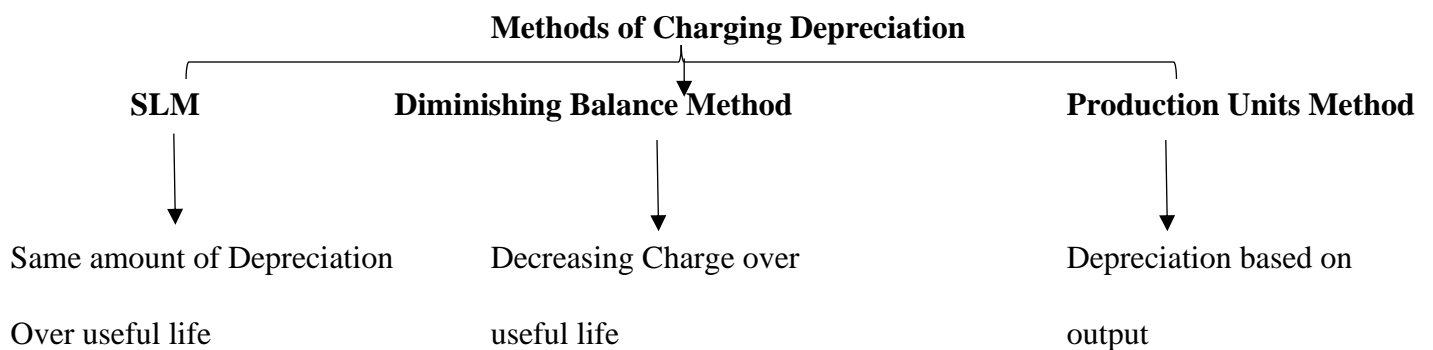
It is an Accounting Policy and an Enterprise can choose either cost or Revaluation Model.



- Revaluation should be done for entire class of Assets, not for any 1 Asset.



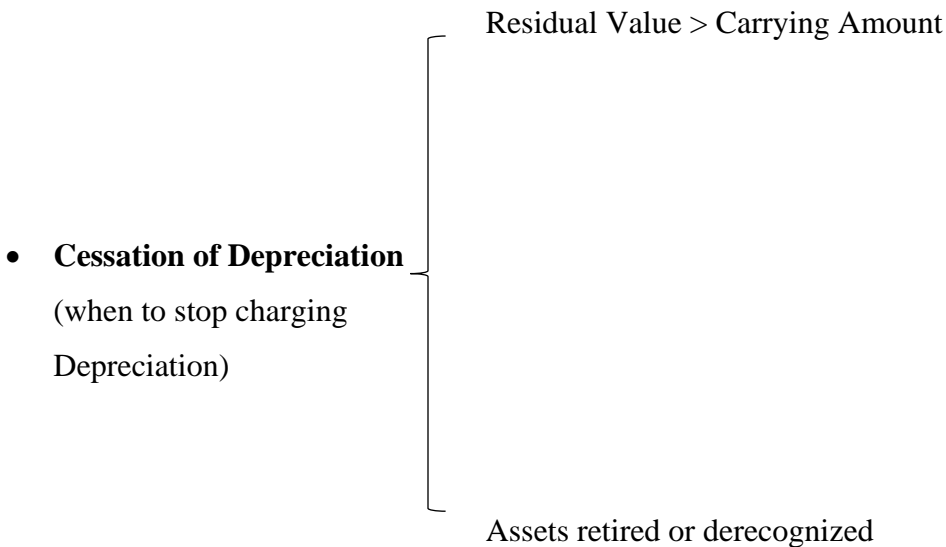
- **Depreciation :** To be charged separately for each component. (item that is significant in relation to total Cost). However, Grouping is possible only if component have same useful life & Depreciation Method.



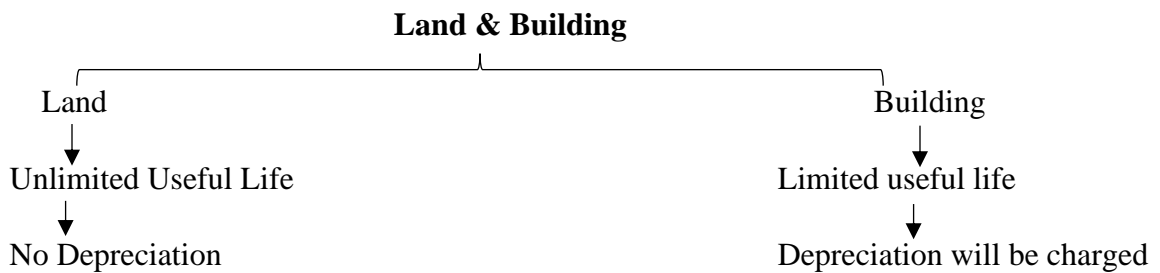
- Basis of Selection: Pattern of Future Economic benefit from the assets to reflect Depreciation.
- Depreciation Method has to be consistent.
Exception: 1.Change in the pattern of Consumption.

2.To comply with law.

- Commencement of period for charging depreciation: When the Assets is available for use.



- **Special Items**



Exceptions: Quarries & Sites

International Financial Reporting Standards

- **INTRODUCTION TO INTERNATIONAL**

FINANCIAL REPORTING STANDARDS (IFRS):

International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).

The goal of IFRS is to provide a global framework for public companies to prepare and disclose their financial statements. IFRS provides general guidance on the preparation of financial statements, rather than setting rules for industry-specific reporting.

Currently over 100 countries permit or require IFRS for public companies with more countries are in transition to IFRS. The founders of IFRS as an international standard believe the cost of implementing IFRS could be offset by the potential compliance of improving credit ratings.

IFRS is sometimes confused with IAS (International Accounting Standards), which are older standards that IFRS has replaced.

- **WHAT ARE THE ADVANTAGES OF CONVERTING TO IFRS**

By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier. Furthermore, companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide. Companies may also need to convert to IFRS if they are a subsidiary of a foreign company that uses IFRS, or if they have a foreign investor that uses IFRS. Companies may also benefit by using IFRS if they wish to raise capital abroad.

- **STRUCTURE OF IFRS:**

IFRS comprise of the following:-

- (1) International Financial Reporting Standards (IFRS) issued after 2001
- (2) International Accounting Standards (IAS) issued before 2001
- (3) Standards Interpretation Committee (SIC) – issued before 2001
- (4) Conceptual Framework for Financial Reporting (2010)

- **IAS 1- PRESENTATION OF FINANCIAL STATEMENTS**

IAS 1 is an international financial reporting standard adopted by the International Accounting Standards Board (IASB). It lays out the guidelines for the presentation of financial statements and sets out minimum requirements of their content; it is applicable for all general purpose financial statements that are based on International Financial Reporting Standards (IFRS)

Financial Statements:

Purpose of the financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

The complete set of financial statements compliant with IFRS comprises 5 elements:

1. A statement of financial position as at the end of the period
2. A statement of comprehensive income for the period
3. A statement of changes in equity for the period
4. A statement of cash flows for the period

Notes contain a summary of significant accounting policies and other explanatory information.

If some accounting policy is applied retrospectively, or Some retrospective restatements or reclassifications were made, then also a statement of financial position as at the beginning of the earliest comparative period shall be presented.

IAS I explains the general features of financial statements, such as fair presentation and compliance with JFRS. going concern, accrual basis of accounting, materiality and aggregation, offsetting, frequency of reporting, Comparative information and consistency of presentation.

- **IAS 2-INVENTORIES**

The objective of IAS 2 is to prescribe the accounting treatment for inventories. It provides guidance for determining the cost of inventories and for subsequently recognizing an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Inventories include assets held for sale in the ordinary Course of business (Finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).

However, IAS 2 excludes certain inventories from its scope:

1. Work in process arising under construction contracts (IAS 11 Construction Contracts)
2. Financial instruments (IAS 39 Financial Instruments: Recognition and Measurement)
3. Biological assets related to agricultural activity and agricultural produce at the point of harvest (IAS 41 Agriculture).

Fundamental principle of IAS 2

Inventories are required to be stated at the lower of cost and net realizable value (NRV).

Measurement of inventories

Cost should include all:

1. costs of purchase (including taxes, transport, and handling) net of trade discounts received
2. costs of conversion (including fixed and variable manufacturing overheads) and
3. other costs incurred in bringing the inventories to their present location and condition.

CAPITAL & REVENUE INCOME & EXPENDITURE

1. Capital Expenditure

Meaning: Capital expenditure means payment made by Business to obtain some benefits i.e. Goods or Services. Capital expenditure means expenditure probable futures carrying benefits.

Features of Capital Expenditures

1. Long term benefits
2. Investing Activity
3. Recoverable
4. Non-recurring
5. Effects on funds & profits
6. Disclosure in final accounts

Examples of Capital Expenditure

- Acquisition of Fixed Assets
- All sums spent up to the point an asset is ready for use
- Financing cost for a fixed asset
- The amount spent on existing asset for the purpose of its improvement or extension
- Money paid for Intangible Assets (Goodwill)
- Money spent to reduce working expenses

2. Revenue Expenditure

Meaning : Expenditure from which no future benefit is expected. Eric Kohler has defined revenue expenditure as “ an expenditure charged against operation, term used to contrast with capital expenditure.”

Features:

- Business Activity
- Maintains Assets
- Not Recoverable
- Recurring
- Reduces Funds and profits

Examples of Revenue Expenditure

- The **cost of materials** used in manufacturing goods intended for resale.
- **Wages** paid in connection with the production of goods meant for sale.
- **Selling and distribution** expenses.
- All expenses **incidental to the working of the business** such as depreciation, rent, salaries, interest, etc.
- All expenses incurred for **maintaining the efficiency of fixed assets** by means of repairs, replacement, renewals and insurance.

Distinction between Capital and Revenue Expenditure

Capital Expenditure	Revenue Expenditure
Incurred in acquiring or improving permanent assets not meant for resale. May add to value of an existing asset	Is a routine expenditure incurred in the normal course of business and includes cost of sales and maintenance of fixed assets.
Increases earning capacity	Maintains the earning capacity
It is normally a non-recurring outlay.	It is usually a recurring item
It produces benefit over several years. Thus a small part is charged to income statement as depreciation and the rest appears in the balance sheet	It is consumed within an accounting year i.e. benefits only one year. Thus entire amount is charged to income statement. Does not appear in the balance sheet.
Is an item of balance sheet	Shown in Trading and profit & loss A/c

3. Capital Receipts

Meaning : Capital receipts means an amount received by a concern during the its financing Activity. A concern needs money to carry on its Business activities and Investment activities.

Capital Receipts- Features

- Financing Activity
- Returnable
- Non recurring
- Effects on Funds & Profits

Examples of Capital Receipts

- Contributions of capital into the business by the proprietor, partners or shareholders
- any sums received from debenture holders,
- any loans and
- Sale proceeds of any fixed assets & long term investments.

4. Revenue Receipts:

Meaning : Revenue receipt means the receipt from customers for sale of goods, for services given, or for use of funds (loans, capital) or for use of assets (patents, know-how).

Revenue Receipts- Features

- Business Activity
- Recurring
- Not returnable
- Increases funds or profits

Examples of Revenue Receipts

- Sale of goods
- Rendering of services
- Interest
- Dividend
- Royalty
- Insurance Claim
- Recoveries & Refunds
- Government Grants

Distinction Between Capital and Revenue Receipts

<u>Capital Receipts</u>	<u>Revenue Receipts</u>
Includes amounts realized by sale of fixed assets or by issue of share or debentures.	Includes amount realized by sale of goods or rendering services
It is a receipt in substitution of a source of income	It is a receipt in substitution of an income.
Amount received for surrender of certain rights under an agreement is a capital receipt, because a capital asset is being given up in the form of these rights	Amount received as compensation under an agreement for the loss of future receipts is a revenue receipt

5. Capital Profits / Capital Income

- Capital profits are profits earned on account of sale of fixed assets or in connection with share capital.
- Capital income is an income which does not relate to operations of the business or which does not grow out of or pertain to the running of the business proper.

Capital Profits / Capital Income- Examples

- Share premium,
- sale of a fixed asset for a value more than that for which it was purchased.eg. Capital gain of Rs 150,000 arises when building bought for Rs. 200,000 is sold for Rs. 350,000.
- **Note:** Only the profit realised over and above the cost of the fixed asset should be taken as capital profit (transferred to capital reserve) while the profit realised over and above book value of the asset till it does not exceed the original cost of the asset should be taken as revenue profit (credited to Profit and Loss Account).

6. Revenue Profits / Revenue income

- Revenue profits are those earned in the ordinary course of business
- **Revenue income** is an income which arises out of and in the course of regular operations of the business concern.

Revenue profits appear in the Profit and Loss Account

Revenue profit and revenue income are synonymous.

Examples:

Profit made on sale of goods, income received from letting out of the business property, dividends received on business investments, etc.

7. REVENUE LOSS & CAPITAL LOSS

- A loss in the course of business activity is known as **Revenue Loss**. Eg. Loss of goods due to fire, theft of cash, bad debts etc.
- Losses due to investing & financing activity gives rise to **Capital Loss**. Eg. Sale of fixed asset at loss, loss of building in fire, issue of share at discount.

Question 1:

State whether the following expenditure is a capital or revenue expenditure. Give reasons:

- 1) Cost of replacement of a defective part of the machinery.
- 2) Expenditure incurred in preparing a project report.
- 3) Expenditure for training employees for better running of machinery.
- 4) Expenditure incurred for repairing cinema screen.

Solution:

- 1) **Revenue expenditure;** as replacement of a defective part will help to maintain the machinery in working condition.
- 2) **Capital expenditure;** if the project is implemented; as according to Accounting Standard 10 all expenditure till a project commences is capitalised. However, if the project is given up or not implemented, and the amount is small it will be written off as revenue expenditure (as expired costs which will bring no benefit in future); if the project is not implemented and the amount is heavy, it will be treated as deferred revenue expenditure.
- 3) **Revenue expenditure;** as expenditure for training employees for better running of machinery is cost of administration related to normal business activities incurred in order to earn income during the year.
- 4) **Revenue expenditure;** as expenditure incurred for repairing cinema screen is a cost incurred to maintain an existing asset in working condition.

Question 2:

State, with reasons, whether you would consider the following as capital expenditure or revenue expenditure:

- 1) Amount spent on uniform of workers.
- 2) White-washing of the factory of building.
- 3) Cost of stores consumed in manufacturing machinery for installation in own factory.
- 4) Wages paid for construction of the building extension.
- 5) Import duty on raw material purchased.

Solution:

- 1) **Revenue expenditure;** as amount spent on uniform of workers is an administration cost related to normal business activities.
- 2) **Revenue expenditure;** as white-washing of the factory of building is a cost of maintaining an asset in working condition.

- 3) **Capital expenditure;** as cost of stores consumed in manufacturing machinery for installation in own factory is a direct cost incurred for acquiring an asset which is to be capitalised as per Accounting Standard 10.
- 4) **Capital expenditure;** as wages paid for construction of an extension to an existing asset is a direct cost incurred for acquiring an asset which is to be capitalised as per Accounting Standard 10.
- 5) **Revenue expenditure;** as import duty on raw material purchased is a direct product cost related to normal business activities incurred in order to earn income during the year.

Question 3:

State with reasons, whether you would consider the following as capital expenditure or revenue expenditure:

- 1) Raw material was imported when 1 dollar was worth ₹ 40; when payment was actually made the foreign exchange was purchased at the rate of 1 dollar equal to ₹ 42.
- 2) Premium paid in connection with acquisition of leasehold premises.
- 3) Renovation of factory canteen.
- 4) Fees paid for renewal of licence for factory.

Solution:

- 1) **Revenue expenditure;** as due to change in exchange rate, raw material cost, which is a direct product cost, has gone up.
- 2) **Capital expenditure;** as premium paid in connection with acquisition of leasehold premises is a direct cost incurred in connection with the acquisition of an asset to be added to the cost of that asset [Accounting Standard 10].
- 3) **Revenue expenditure;** as renovation of factory canteen helps to maintain the asset in working condition.
- 4) **Revenue expenditure;** as fees for renewal of factory licence is a recurring expenditure incurred in the course of normal business activities.

Question 4:

Neo Electric Engineers Private Limited removed their factory to a more suitable premises in Navi Mumbai. State with reasons the accounting treatment for the following items:

- 1) A sum of ₹ 99,500 was spent for dismantling, removing and re-installing plant, machinery and fixtures.
- 2) The removal of stock from the old factory to the new at a cost of ₹ 1,000.
- 3) Plant and machinery which stood in the books at ₹ 1,50,000 included a machine at a book value of ₹ 3,400. This being obsolete, was sold off at ₹ 900 and was replaced by a new machine which cost ₹ 4,800.
- 4) The freight and cartage on the new machine amounted to ₹ 300 and erection charges ₹ 550.
- 5) The furniture appeared in the books at ₹ 15,000. Of these, some portion of the book value at ₹ 3,000 was discarded and sold at ₹ 1,200. New furniture of the book value of ₹ 2,400 was acquired.
- 6) A sum of ₹ 2,200 was spent on painting the new factory.

Solution:

- 1) **Revenue expenditure;** It is treated as revenue expenditure and is fully written off.
- 2) **Revenue expenditure;** as removal of stock from the old factory to the new is a normal operating cost

related to a current asset (stocks) and not capital asset.

- 3) When a machine costing ₹ 3,400 is sold for ₹ 900; ₹ 900 received on sale of machinery is treated as **capital receipts**; and the book value of the machine becomes ₹ 2,500. As been the machine has been the machine has sold its book value represents an 'expired cost with no future benefits i.e. loss on sale of asset which is to be written off by debit to the profit and loss account. Cost of new machine (₹ 4,800) will be treated as capital expenditure.
- 4) **Capital expenditure**; as freight and cartage on the new machine as well as the erection cost is a direct cost, of bringing an asset to a condition where it can be put to use, which is capitalized as per Accounting Standard 10.
- 5) Loss on sale of old furniture (3,000 - 1,200) is written off as expired cost by debit to the profit and loss account; cost of new furniture (₹ 2,400) will be treated as **capital expenditure**.
- 6) **Capital expenditure**; painting the new factory is a direct cost till an asset is first put to use, which is capitalised as per Accounting Standard 10.

Question 5:

Mr. Bindas Accountant seeks your help on the following transactions/events. How will you treat them?

- 1) Gave ₹ 1 lakh as custom duty on the machinery imported.
- 2) Invested ₹ 2 lakhs on the purchase of 2,000 equity shares of ₹ 100 each of a subsidiary company.
- 3) Spent ₹ 57,600 on the construction of a platform for the installation of machinery imported from abroad.
- 4) Placed a deposit of ₹ 3 lakhs with the bankers as margin money for obtaining guarantee of ₹ 10 lakhs in favour of Bharat Petroleum Limited.
- 5) Furniture worth ₹ 19,500 destroyed by fire, which was not insured.
- 6) Goods worth ₹ 27,000 distributed free amongst the workers on Diwali Pooja day.
- 7) Spent ₹ 39,600 on research, but subsequently the project was abandoned by the management.

Solution:

- 1) **Capital expenditure**; custom duty on the machinery imported is a direct cost of acquiring an asset which is to be capitalized as per Accounting Standard 10.
- 2) **Capital expenditure**; as purchase of shares is an investment.
- 3) **Capital expenditure**; as construction of a platform for the installation of machinery imported from abroad is a direct cost of bringing the asset to its intended use which is to be capitalized as per Accounting Standard 10.
- 4) **Capital expenditure**; as bank deposit is an investment which will be refunded in future.
- 5) **Capital loss**, as Furniture has been destroyed by fire, which was not insured and a capital asset has been lost, which will be written off in the profit and loss account as an expired cost from which no benefit can be expected in future.
- 6) **Revenue expenditure**; as cost of goods distributed free amongst the workers on Diwali Pooja day is an expired cost from which no benefit can be expected in future.

- 7) **Revenue expenditure;** as cost of research on a project subsequently abandoned by the management is an expired cost from which no benefit can be expected in future.

Question 6:

State with reasons whether the following items relating to a sugar mill company are capital or revenue:

- 1) A motor truck costing ₹ 15,000 and standing in the books at ₹ 7,250 was sold for ₹ 12,000.
- 2) ₹ 20,000 received from the issue of further shares.
- 3) ₹ 75,000 being cost of land purchased for agricultural farm and ₹ 450 paid for land revenue.
- 4) ₹ 1,50,000 paid for excise duty on sugar manufactured.
- 5) ₹ 50,000 invested in a government loan.
- 6) ₹ 60,000 spent on construction of railway siding.

Solution:

- 1) **Capital receipt;** as ₹ 12,000 is received from sale of a capital asset. The profit on sale of asset (12,000-7,250) will be credited to the profit and loss account as an extraordinary item of income.
- 2) **Capital receipt** (₹ 20,000); as amount has been received from issue of shares in the course of financing activity of the company.
- 3) ₹ 75,000 will be treated as capital expenditure as agricultural land is a capital asset; ₹ 450 paid for land revenue is **revenue expenditure** in the course of normal operations of business.
- 4) **Revenue expenditure;** excise duty on sugar manufactured is the cost incurred during the course of normal business operations or the cost incurred in order to earn income.
- 5) **Capital expenditure;** purchase of government loan is an investment which will be returned on due date.
- 6) **Capital expenditure;** as cost of construction of railway siding is for acquisition of a capital asset.

Question 7:

State which of the following expenses are capital, revenue and deferred revenues. Explain with reasons:

- 1) Expenditure incurred on overhauling machinery.
- 2) Taxes paid.
- 3) Wages paid to the workers for erection of a new machinery.
- 4) Cost of goodwill purchased.
- 5) Heavy expenditure incurred on advertisements.
- 6) Cost of construction of a building.
- 7) Machinery costing ₹ 10,000 sold for ₹ 12,000.
- 8) Purchased marketing rights of IPL IV for ₹ 15,00,000.

Solution:

- 1) **Revenue expenditure;** as expenditure incurred on overhauling machinery helps to maintain the machinery in working condition.
- 2) **Revenue expenditure;** if taxes are on goods purchased e.g. excise or sales tax. (Income tax is treated as drawings or capital expenditure).

- 3) **Capital expenditure;** wages paid to workers for erection of a new machinery are capitalised as all costs till an asset is installed are added to its cost as per Accounting Standard 10.
- 4) **Capital expenditure;** as cost of goodwill is an acquisition of intangible asset.
- 5) **Revenue expenditure,** the heavy expenditure incurred on advertisements is revenue expenditure as it does not create any asset.
- 6) **Capital expenditure;** as cost of construction of a building helps to create a capital asset.
- 7) **Capital receipt;** as the amount of ₹ 10,000 is received on sale of a fixed asset. Profit on sale (₹2,000) is credited to the Profit & Loss A/c as an extra-ordinary item of income.
- 8) **Capital expenditure;** as it is an acquisition of an intangible asset.

Question 8:

Slate whether the following expenditure is a capital, revenue or deferred revenue expenditure. Give reasons:

- 1) Payment for purchase of goods.
- 2) Payment for purchase of stationery.
- 3) Payment for purchase of a car.
- 4) Payment for purchasing mining rights
- 5) Partial refund of capital to a partner.
- 6) Payment of a loan taken earlier.
- 7) Payment of salaries.
- 8) Wages for erection of machinery.

Solution:

- 1) **Revenue expenditure;** as expenditure incurred for purchase of goods is a direct product cost related to normal business activities incurred in order to earn income during the year.
- 2) **Revenue expenditure;** as purchase of stationery is cost of administration related to normal business activities incurred in order to earn income during the year.
- 3) **Capital expenditure;** as purchase of a car helps to create a capital asset.
- 4) **Capital expenditure;** as a new intangible asset is purchased.
- 5) **Capital expenditure;** as partial refund of capital to a partner reduces the liabilities of the concern.
- 6) **Capital expenditure;** as payment of a loan taken earlier reduces the liabilities of the concern.
- 7) **Revenue expenditure;** as salaries is cost of administration related to normal business activities incurred in order to earn income during the year.
- 8) **Capital expenditure;** as wages for erection of machinery is a direct cost incurred for acquiring an asset which is to be capitalised as per Accounting Standard 10.

Question 9:

State with reasons, whether you would consider the following as capital expenditure or revenue expenditure:

- 1) Professional fees paid in connection with acquisition of leasehold premises.
- 2) Compensation paid to a retrenched employee for loss of employment.

Solution:

- 1) **Capital expenditure;** as professional fees paid in connection with acquisition of leasehold premises is a direct cost incurred in connection with the acquisition of an asset to be added to the cost of that asset [Accounting Standard 10].
- 2) **Revenue expenditure;** as compensation paid to a retrenched employee for loss of an administrative employment is an administrative employment expenditure incurred in the course of normal business activities. However, if the amount is heavy, it may be treated as Deferred Revenue Expenditure, as it is a non-recurring expenditure not in the normal course of business, which benefits the business for many years by way of reduction in salary.

Question 10:

State whether the following are Capital or Revenue. Give reasons for the same:

- 1) Customs duty paid on raw materials purchased.
- 2) Wages paid to carpenter for making furniture.
- 3) Sale of old machinery.
- 4) Term Loan taken from Bank.
- 5) Commission received on Sales.
- 6) Brokerage paid on Purchase of Land.

Solution:

- 1) **Revenue expenditure;** it is incurred on purchase of raw materials which is a normal recurring transaction. It does not create any capital asset.
- 2) **Capital expenditure;** it is paid to bring into existence a capital asset. It increases cost of the capital assets.
- 3) **Capital Receipt;** the amount received on sale of machinery is a capital receipt as it is not received from normal business transaction. The profit or loss on sale of machinery is a capital profit or capital loss.
- 4) **Capital Receipt;** the amount is received from non-recurring business transaction.
- 5) **Revenue Receipt;** it is received from normal business recurring transaction.
- 6) **Capital expenditure;** the amount is paid to bring into existence a capital asset.

Question 11:

Explain with reasons whether the following expenses are capital, revenue or deferred revenue:

- 1) Purchase of old machinery for cash ₹ 1,00,000.
- 2) Interest paid ₹ 15,000 on Bank Overdraft.
- 3) Paid Audit Fees ₹ 10,000.
- 4) Paid fees ₹ 6,000 to the Association for 3 years.
- 5) Provided depreciation ₹ 20,000 on Furniture.
- 6) Paid Insurance premium ₹ 1,000.

Solution:

- 1) **Capital expenditure;** The benefit from machinery purchased will be available for many years.
- 2) **Revenue expenditure;** The expenditure is incurred for normal running of the business.
- 3) **Revenue expenditure;** It is a normal business expenditure.
- 4) **Revenue expenditure;** As no new asset is created, expenditure is fully written of.
- 5) **Revenue expenditure;** It is a normal expenditure for using the furniture.
- 6) **Revenue expenditure;** It is a normal business expenditure.

Question 12:

Classify with reason the following into Capital or revenue:

- 1) Legal expenses ₹ 3,000 in connection with collection of debts.
- 2) Premium ₹ 25,000 on issue of new shares.
- 3) Dividend and Interest ₹ 10,000 on investments.
- 4) Sales-tax collected from purchaser of goods.
- 5) Cost of carrying out an experiment to modify a product.
- 6) Repairs to keep the machinery in good working condition.
- 7) Cost of a lathe machine ₹ 50,000.

Solution:

- 1) **Revenue expenditure;** It is incurred in normal course of business to collect debts.
- 2) **Capital Receipt;** It premium is received on issue on new shares.
- 3) **Revenue expenditure;** It is received in ordinary course of business on investments.
- 4) **Capital Receipt (Liability);** The same has to be paid to Government.
- 5) **Revenue expenditure;** unless the expenditure involves acquisition of any tangible fixed asset(e.g. equipments) or an intangible asset (e.g. patent or know-how).
- 6) **Revenue expenditure;** it is incurred to maintain the machinery in good working condition not to improve its capacity.
- 7) **Capital expenditure;** Purchase of a lathe machine would increase revenue earning capacity.

Question 13:

Determine whether the following are Capital or Revenue (Give Reasons).

- (a) A sum of ₹ 10,000 paid for obtaining a license to carry on business.
- (b) A fine of ₹ 505 paid for contravening Municipal rules and regulations.
- (c) Productive wages of ₹ 50,000 paid for the month of December, 2004.
- (d) Umbrellas were purchased for the employees at the cost of ₹ 3,000.
- (e) A second hand typewriter was purchased for ₹ 1,200 and ₹ 500 were spent for bringing it intoworking condition.

Solution:

- (a) **Capital Expenditure:** A Sum of ₹ 10,000 paid for obtaining a license to carry on business is Capital Expenditure as it helps to start the business activity; it is an acquisition of an intangible asset which is a long term source of income.
- (b) **Revenue Expenditure:** A fine of ₹ 505/- paid for contravening Municipal rules and regulation is a Revenue Expenditure. It is usual in nature and does not create any assets.
- (c) **Revenue Expenditure:** Productive wages of ₹ 50,000 paid for the month of December 2004 is a Revenue Expenditure because it is incurred in the normal course of business and required for day to day production.
- (d) **Revenue Expenditure:** ₹ 3,000 spent on Umbrellas, purchased for employees is a Revenue expenditure. It does not create any assets and is normally spent once in a year. It is a business expenditure.
- (e) **Capital Expenditure:** Amount spent on purchase of Second Hand Typewriter ₹ 1200 and ₹ 400 on repairing it, so as to bring it in working condition. Both together ₹ 1,600 creates an assets. Hence it is a Capital Expenditure.

Question 14:

State with reasons the nature of following Expenses/Receipts

- (a) Sold 4% Government Securities (Investment) for ₹ 1,40,000.
- (b) Preliminary Expenses paid ₹ 42,000.
- (c) Carriage outward paid ₹ 40,000.
- (d) Import duty paid on purchase of Computer Equipment ₹ 85,000 to be used in the office.
- (e) Received ₹ 5,00,000 on the Issue of 5% Debentures.
- (f) Legal expenses ₹ 6,000 paid in connection with Purchases of Land.
- (g) Repairing charges ₹ 15,000 paid for keeping the machinery in working condition.

Solution:

- (a) **Capital Receipt:** Sold 4% Govt. Securities (Investment) for ₹ 1,40,000 is Capital Receipt as the amount of ₹ 1,40,000 is received on the sale of investment.
- (b) **Revenue Expenditure:** Preliminary Expenses paid ₹ 42,000 is Revenue Expenditure as it has not created any asset.
- (c) **Revenue Expenditure:** Carriage outward Paid ₹ 40,000 is Revenue Expenditure as it is incurred in normal business operations to earn income during the year.
- (d) **Capital Expenditure:** Import duty paid on purchase of computer equipment ₹ 85,000 to be used in the office is a Capital Expenditure as import duty paid on the purchase of computer equipment is a direct cost of acquiring a fixed assets which is to be capitalised.
- (e) **Capital Receipt:** Received ₹ 5,00,000 on the issue of 5% Debenture is Capital Receipt as amount has been received from issue of debentures in course of financing activity of the company.
- (f) **Capital Expenditure:** Legal Expenses ₹ 6,000 paid in connection with purchase of land is Capital Expenditure as legal expenditure paid in connection with acquisition of land is a direct cost incurred in

connection with the acquisition of a fixed assets to be added to the cost of the assets is to be capitalised.

- (g) **Revenue Expenditure:** Repairing charges ₹ 15,000 paid for keeping the machinery in working condition is Revenue Expenditure incurred on repair of the machinery which helps to maintain it in working condition.

Question 15:

State whether the following items are Capital or Revenue together with brief reasons for your answer:

- 1) ₹ 51,000 received from an insurance company for suspension of business activities due to bombblasts in the city.
- 2) A plant worth ₹ 7,00,000 is brought by proprietor for business activities.
- 3) A dealer in timber acquired wood worth ₹ 3,00,000 and made furniture out of it at a total cost of ₹ 3,75,000 and sold it to a customer for ₹ 4,50,000.
- 4) Incurred ₹ 1,00,000 on research of a new product which did not materialise.
- 5) Heavy repairs to the roof of the building ₹ 1,00,000 for protection against rains.
- 6) Carriage and freight paid for bringing machinery ₹ 12,000 to be used in factory for manufacturing purpose.
- 7) Payment of legal fees to advocate for preparation of Purchase Agreement of Land /Building Rs. ₹ 20,000.
- 8) Wages paid to workers ₹ 10,500 for erection of new machinery in own plant.

Solution:

- 1) It is a **Revenue Receipt** as it is in connection with suspension of business activities. It is concerned with operation.
- 2) It is a **Capital Expenditure** as it brings into existence new asset.
- 3) Purchase of timber for making furniture for sale is **Revenue Expenditure**. ₹ 4,50,000 received on sale of furniture is a Revenue Receipt.
- 4) It is a **Revenue Expenditure**. It should be written off.
- 5) It is a **Capital Expenditure** as it increases cost of building.
- 6) It is a **Capital Expenditure** as it increases cost of machinery. It is capitalised.
- 7) It is a **Capital Expenditure**. It increases cost of land and building. It is capitalised.
- 8) It is a **Capital Expenditure**. It increases cost of new machinery. It is capitalised.

Module 2: Trial Balance & Final Accounts of Manufacturing Concern

In the words of J.R Batliboi, "A trial balance is a statement, prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books."

A trial balance gets prepared just before preparing final accounts, which includes a balance sheet, Profit and loss statement, Cash flow, and notes to Accounts. In layman's terms, we can assume that it is the basic structure behind preparing the final accounts. It is the third step in the road map to prepare final accounts after the entries are passed in journal-register followed by classification and grouping of transactions to their respective ledgers. These ledgers, i.e. the principal book containing all sets of accounts, are then accumulated in a single place to constitute a Trial balance.

Purpose of Trial Balance:

The preparation of the trial balance helps in developing financial statements. The assets and liabilities find their place in the balance sheet. The Income and expenses appear in the profit and loss account. Based on all these accounts, the preparation of Final accounts takes Place.

Features of Trial Balance:

1. Trial balance in accounting lists down all the ledgers, including the cash book.
2. It does not form a part of the Double-entry System of Accounting. It serves only as a reference.
3. A trial balance can be prepared any time- weekly, monthly, quarterly, and year-end.
4. It serves as a vital tool to verify the arithmetical accuracy of the books.
5. It forms a connecting point between the Profit and Loss Account and Balance sheet.
6. It does not provide conclusive proof of the absence of error. Errors such as errors of principal may still exist.

Objectives of Trial Balance:

- 1. Bird Eye View:** The trial balance gives the summary of all the ledgers. Since the net amount gets displayed, you can save time by not viewing the concerned ledger again.
- 2. Pointing out Error:** The trial balance aids in pointing out errors. It is also used to check the arithmetical accuracy of books of accounts.

Limitations of Trial Balance:

1. The error of principle and compensating error may still exist even after the trial balance matches.
2. The trial balance matches even when the transactions are completely omitted from recording in the books if they are not accounted for.

Methods of Preparation of Trial Balance:

Two methods used in the preparation of the trial balance are:

1. **Balance Method (Net Trial Balance):** In this method, it is the net amount of a ledger that gets displayed in a trial balance. It can either be debit or credit balance. Under this method, the trial balance can be prepared only after all the accounts get balanced. This is one of the accurate methods for the preparation of final accounts.
2. **Total Method (Gross Trial Balance):** In this method, the total of each side of the account (debit and credit) gets posted in the trial balance. This method provides higher mathematical accuracy. However, the preparation of final accounts is not usually conducted using this method because of the scope of duplication, resulting in errors.

Steps to prepare Trial Balance:

Step 1: Understanding the Golden Rule of accounting: Understanding the [golden rules of accounting](#) is vital. It helps in understanding which account needs to be debited and which needs to be credited. As per the golden rule, debit comes under Expenses and assets and credit under incomes, gains, and liabilities. Therefore, credit is payables, whereas debit is receivables.

Step 2: Pass the journal entries: After making sure which account is debited or credited, a necessary journal entry is passed. If you are using Tally ERP 9, the entries get passed automatically when the amount is input.

Step 3: Once the journal entries get passed, post the entries into their respective ledgers. In the case of Tally ERP 9, this posting takes place automatically at the back end. If you are maintaining manual accounts, then post them manually into the respective accounts.

Step 4: In this step, all the ledgers get routed to the **trial balance**. If there is no arithmetical mistake, the debit and credit sides will match up. In case of any difference, record the same in the suspense account.

Errors that cause a mismatch in Trial Balance:

Both the sides of a trial balance must tally. But if that does not happen, it may be on account of the following reasons.

1. **When only one leg of the transaction is posted:** Suppose goods are purchased on credit. The Purchase account gets debited, but the Creditor's account was not credited.

- 2. Lack of accurate balancing:** The Closing balances of the previous year have not been accurately balanced in the current year.
- 3. Amounts mismatched:** Suppose the sales ledger has a credit balance of Rs 10000, but while posting it in the trial balance, Rs 1000 gets posted. As a result, there will be a mismatch of Rs 9000 in the trial balance.
- 4. Mismatch issue:** Suppose that the prepaid rent is paid. Instead of debiting the prepaid rent account, the Vendor's account gets debited. This will cause a mismatch in the trial balance.

Errors Not Reflected by Trial Balance:

- 1. Omission:** In this case, if a transaction gets missed in its entirety; the same will not get detected by the trial balance.
- 2. Error of Principle:** The trial balance will still match if a transaction gets recorded against the generally accepted accounting principle. The error of principle includes recording the Capital transaction as a revenue transaction in the books of accounts.
- 3. Error of Commission:** Suppose Rs 5000 gets recorded as Rs 500 in both the debit and credit sides of the trial balance. The trial balance will fail to point out this error.
- 4. Compensating Error:** In compensating error, one error compensates for another. For example, you did not debit the purchase account of Rs 1000 in one account but by mistake debited Rs 1000 in another account.

Important Principle used in the Preparation of Trial Balance:

1. All the nominal, personal, and real accounts are to be considered in preparing the Trial balance.
2. If a ledger shows a NIL balance, it is not considered in the preparation of the trial balance.
3. The purchase or consumption ledger always carries a debit balance and appears on the debit side of the trial balance.
4. The revenue account always carries a credit balance and appears on the credit side of the balance sheet.
5. Sales return and purchase return can appear as separate line items in the trial balance or be shown as reduced from the main purchase and sales ledger, respectively.
6. Opening stock figure comes from the Profit and loss account since it is not available as a closing balance of stock in the previous year's trial balance.
7. All the expenses generally carry a debit balance. Accordingly, they will appear with a debit balance in the trial balance.

8. All the incomes and gains generally carry a Credit balance. Accordingly, they will appear with a credit balance in the trial balance.

9. The asset and liability must tally at the end.

Format of Trial Balance:

The **trial balance** has two formats, such as:

1. **Journal Format:** This is as per the format of a journal Folio. Under this format, there is a column for the serial no., account name, ledger folio, the amount of debit and credit.

2. **Ledger Format:** This form of trial balance features two sides for debit and credit. Each side will have the name of the ledger and the net amount of the ledger in the amount column.

Accounts in trial Balance:

The debit side of the trial balance has:

- **Assets-** Cash, Inventory, Building, land, plant, and Machinery.
- **Trade Receivables-** Debtors and Bills receivables.
- **Expenses-** Wages and salary.
- **Losses-** Loss on sale of PPE, land, etc., other than inventory.
- Consumption and Purchase Account

The Credit Side of the Trial Balance has:

- **Liabilities-** Expenses payable, Short term bank credits, loans, and other borrowings.
- **Trade Payable-** Bills payable and sundry creditors
- **Sales and Revenue**
- **Profit and Gain-** Profit on sale of assets such as land, building, or PPE.
- **Reserves-** These include accumulated Depreciation reserve, General reserve, Securities Premium, etc.

Enhanced Uses of Trial Balance

These days the accounting software prepares the trial balances by themselves. There is hardly any chance of a mistake in the trial balance prepared by them. But still, the presence of trial balance carries a lot of significance. For example, the auditor can use the same to track deviation from the previous year's figure. Based on that deviation, they can base their audit approach.

Trial Balance Worksheet		
Account Name	Debit	Credit
Petty cash	XX	
Cash in checking	XX	
Cash in savings	XX	
Accounts receivable	XX	
Reserve for bad debts		XX
Inventory	XX	
Prepaid insurance	XX	
Prepaid other expenses	XX	
Office supplies	XX	
Utility deposits	XX	
Notes receivable	XX	
Investments	XX	
Organization expense	XX	
Vehicles	XX	
Accumulated depreciation - vehicles		XX
Furniture and fixtures	XX	
Accumulated depreciation - furniture and fixtures		XX
Equipment	XX	
Accumulated depreciation - equipment		XX
Buildings	XX	
Accumulated depreciation - buildings		XX
Land	XX	
Goodwill	XX	
Other intangible assets	XX	
Accounts payable		XX
Sales tax payable		XX
Federal withholding taxes payable		XX
FICA taxes payable		XX

State withholding taxes payable		XX
Unemployment taxes payable		XX
Accrued wages		XX
Unearned revenue		XX
Accrued income taxes		XX
Credit card payable		XX
Bank loan payable		XX
Notes payable		XX
Owner's equity		XX
Owner's drawing account	XX	
Common stock		XX
Additional paid-in capital		XX
Preferred stock		XX
Retained earnings		XX
Sales		XX
Revenues		XX
Sales returns and allowances	XX	
Investment income		XX
Gain (loss) on sale of assets	XX	XX
Purchases	XX	
Freight	XX	
Purchase returns and allowances		XX
Cost of goods sold - materials	XX	
Cost of goods sold - labour	XX	
Cost of goods sold - direct expenses	XX	
Cost of goods sold - indirect expenses	XX	
Advertising	XX	
Amortization	XX	
Bad debt expense	XX	
Bank charges	XX	

Charitable contributions	XX	
Commissions expense	XX	
Contract labor	XX	
Credit card fees expense	XX	
Delivery expense	XX	
Depreciation	XX	
Dues and subscriptions	XX	
Entertainment	XX	
Insurance	XX	
Interest expense	XX	
Maintenance	XX	
Miscellaneous	XX	
Office expense	XX	
Operating supplies	XX	
Payroll taxes	XX	
Permits and licenses	XX	
Postage	XX	
Professional fees	XX	
Property taxes	XX	
Rent	XX	
Repairs	XX	
Telephone	XX	
Travel	XX	
Utilities	XX	
Vehicle expenses	XX	
Wages	XX	
Income taxes	XX	
Totals	XX	XX

Questions:

1. From the following information, draw up the Trail Balance as on 30th June, 2022.

Particulars	Rs.
Goodwill	10,000
Premises	25,300
Depreciation on Premises	1,700
Plant & Machinery	30,200
Profit and Loss Account (Cr.)	7,800
Outstanding Wages	1,500
Prepaid Rent	2,300
Accrued Interest	700
Interest received in advance	200
Debtors	1,000
Creditors	10,300
Bills Payable	4,000
Reserve for Bad Debts	2,500
Loss on Revaluation of Assets	500
Provident Fund	3,500
Income Tax Refund	200
General Reserve	3,000
Capital	38,700

2. From the following information prepare a Trail Balance as at 30th June, 2022.

	₹.
Discount allowed	1,000
Capital	8,000
Purchases	12,000
Sales	20,000
Rent Payable	2,000
Discount Receivable	1,000
Expenses Account	500
Drawing Account	2,500
Assets Account	10,000
Commission Account	2,000
Rent Account	3,000

3. From the following ledger balances prepare a Trial Balance as at 31st December, 2022:

Particulars	₹
Purchases	1,49,000
Salaries	4,000
Creditors	10,000
Debtors	24,000
Capital	1,00,000
Drawing	16,000
Sales	2,17,000
Purchase Return	1,600
Sales Return	6,000
Rent	1,800
Discount	400
Interest	3,000
Bad Debt Reserve	2,000
Stationery	1,400
Postage	460
Furniture	2,000
Wages	7,000
Machinery	30,000
Carriage	1,240
Fuel	2,000
Factory Insurance	400
Bad Debts	1,200
Bills Receivable	1,700
Opening Stock	35,000
Building	50,000

4. The following balances are extracted from the book of Shri Srigopal as at 31st December, 2022: Prepare a Trial Balance.

Particulars	₹	Particulars	₹
Capital	15,000	Advertisement	210
Land & Building	15,600	Rent & Taxes	160
Bank Overdraft	2,500	Insurance	40
Cash in hand	680	Discount allowed	300
Stock-in-Trade as at 1 st January 2022	6,000	Repairs to Building	210
Purchases	7,200	Interest and Discount Received	500
Provision for Bad Debt	370	Debtor	6,620
Sales	17,000	Creditors	4,100
Wages	1,250	General Expenses	500
Salaries	700		

5. Prepare Trial Balance as on 31st March, 2022

Particulars	₹	Particulars	₹
Padmakar's Capital	8,00,000	Purchases Returns	20,000
Furniture & Fixture	1,40,000	Loan from Nandlal	1,00,000
Land & Building	1,03,000	Postage & Telegram	111
Plant & Machinery	2,50,000	Rent, Rate & Taxes	48,444
Padmakar's Drawing	50,000	Bad Debts	4,000
Patents	2,00,000	Sundry Creditors	1,24,000
Opening Stock	8,50,000	Discount Received	6,000
Purchases	1,50,000	Trade Expenses	7,000
Wages	68,168	Interest on loan	6,000
Salaries	2,00,000	Insurance	8,500
Sundry Debtors	2,00,000	Traveling Expenses	3,300
Sales	13,20,000	Cash in hand	1,032
Sales Return	31,000	Cash at bank	49,945

6. Prepare Trial Balance as on 31st June, 2022 from the following:

Particulars	₹	Particulars	₹
Opening Stock	60,000	Bad Debts	900
Purchase	1,50,000	Sundry Creditors	60,000
Capital	70,000	Cash in Hand	2,060
Drawing	22,000	Sundry Debtors	92,000
Sales	2,50,000	Furniture	10,000
Traveling Expenses	1,320	Plant & Machinery	20,000
Salaries	11,200	Building	12,000
Rent, Taxes & Insurance	5,600		
Returns Outwards	2,600		
Advertising	840		
Wages	7,000		
Bank Overdrafts	20,000		
General Trade Exp.	1,350		
Return Inward	5,400		
Discount allowed	600		
Interest and Commission paid	430		

7. From the following balance prepare Trail Balance of Shri Sunil as on 31sr March, 2022:

Particulars	₹	Particulars	₹
Machinery	80,000	Interest (Cr.)	900
Building	60,000	Commission Received	300
Purchases	1,50,000	Carriage	2,000
Sunil's Capital	1,50,000	Sundry Debtors	40,000
Sales	1,94,000	Bad Debts	1,900
General Expenses	5,000	Postage & Telegram	700
Rent	2,000	Wages	20,000
Legal Charges	1,000	Sunil's Drawing	5,000
Salaries	12,000	Cash in Hand	12,700
Bank Overdraft	2,000	Returns Outwards	1,500
Sundry Creditors	50,000	Loan taken	24,000
Stock(1.4.21)	30,400		

8. From the following balances, prepare Trial Balance of Mr. Shastri as on 31.3.2022

Particulars	₹	Particulars	₹
Capital Account	1,75,000	Postage	1,400
Drawing	42,500	Advertisement	3,600
Opening Stock	37,500	Bad Debts	4,000
Purchases	1,15,000	Sales Returns	7,500
Carriage Inward	5,000	Furniture	12,500
Staff Salaries	17,500	Plant & Machinery	77,500
Rent	6,000	Goodwill	50,000
Insurance	3,000	Cash at Bank	25,000
Sundry Expenses	3,450	Cash in Hand	1,050
Printing & Stationery	3,000	Sundry Debtors	57,000
Wages	26,000	Rent Received	9,000
Carriage Outward	1,500	Sundry Creditors	36,000
Sales	2,70,000		
Purchase Returns	10,000		

9. From the following figures extracted from the books of Kumar, you are required to prepare Trial Balance as on 31.12.2022:

Particulars	Rs.	Particulars	Rs.
Stock (1.1.22)	35,000	Insurance	1,250
Purchases	90,000	Gas & Electricity	2,750
Returns Inwards	2,000	Bad Debts	900
Land & Building	70,000	Office Rent	2,500
Plant & machinery	83,000	Returns Outwards	1,000
Motor Car	7,000	Sales	2,10,000
Postage & Telegrams	1,400	Salaries	10,500
Freight & Octroi	8,000	Office Expenses	3,700
Carriage	1,100	Discount Allowed	2,000
Furniture	5,300	Cash at Bank	26,600
Sundry Debtors	26,600	Loose tools	3,600
Loan to Meher	40,000	Interest on Loan to Meher	1,000
Provision for Bad Debts	800	Drawing	12,000
Capital	2,11,000	Discount Received	800
		Wages	32,000
		Sundry Creditors	45,000

10. Balances from Ledger as on 31st March, 2022. Prepare Trial Balance of Mr. Weak as on 31st March, 2022:

Particulars	₹	Particulars	₹
Capital Account	17,000	Office Expenses	8,000
Bank Overdraft	34,400	Salaries	13,700
Cash in hand	8,300	Carriage	300
Plant & machinery	31,000	Purchases	37,800
Motor Van	7,400	Sales	92,200
Sundry Creditors	26,900	Returns Outwards	800
Sundry Debtors	32,100	Sales Returns	2,200
Postage	450	Discount Given	400
Discount Received	700	Advertising	1,100
Stock	39,000		

Manufacturing Final Accounts

Format

Manufacturing Account For the year ended _____.

Particulars	₹	₹	Particulars	₹	₹
To Raw Materials Consumed					
Opening Stock of Raw Material	X		By Sale of Scrap		X
Add: Purchase of Raw Material	X		By Closing Stock of WIP		X
Add: Carriage or Freight Inward	X				
Add: Octroi Duty	X				
Add: Dock Dues	X				
Add: Custom Duty	X				
Less: Purchase Return (R.M)	(X)				
Less: Closing Stock of R.M	<u>(X)</u>	XX			
To Direct Wages			By Cost of Goods Manufactured		
(Wages/Factory Wages/Manf. Wages)		X	Transfer to		
To Direct Expenses			Trading A/c		X
(Hire of Special Machinery, Design Exp.)		X			
To Opening Stock of W.I.P		X			
To Factory Expenses					
Salary of Works Manager	X				
Power & Fuel	X				
Lighting	X				
Depreciation on Plant & Building	X				
Depreciation on Factory Land & Bldg.	X				
Insurance on Plant & Machinery & Land & Building	<u>X</u>	X			
To Rent & Taxes (Factory) Stores, oil, grease					
To Salary to Factory Supervisors					
To Repairs of Factory Assets					
		XX			
		XX			XX

Trading Account for the year ended

To Opening Stock of Finished Goods		X	By Sales		X
To Purchases of Finished Goods		X	By Goods Lost or Destroyed		
To Expenses related to F.G		X	By Goods taken by Proprietor		
To Gross Profit		XX	By Goods given as Free Sample		X
			By Closing Stock Of Finished Goods		
		XX			XX

Profit & Loss Account for the year ended _____

Particulars	·	Particulars	·
To Gross Loss	X	By Gross Profit	X
To Baddebts (T.B)	X	By Discount	X
Add: Baddebts (Adj)	X	By Commission	X
Add: R.D.D (Adj)	X	By Interest	X
Less: R.D.D (T.B)	(X)	Received By Rent Received	X
To Office Salaries	X	By Miscellaneous Income	
To Office Rent & Rates	X	By Profit on Sale of Investment or Other Asset	X
To Printing & Stationery	X		
To Postage & Telegrams	X		
To Loss on Sale of Investment or Asset	X		
To Telephone Charges	X		
To Audit Fees	X		
To Insurance	X		
To Entertainment Exps.	X		
To Repairs	X		
To Interest on Loan/Debenture/ O.D	X		
To Sundry Trade Exps.	X		
To Conveyance	X		
To General Expenses	X		
To Office Lighting	X		
To Loss by Fire / Loss by Theft	X		
To Commission allowed	X		
To Advertisement /Publicity/Sales Promotion	X		
To Carriage Outward / Freight/Duties	X		
To Export Duty	X		
To Warehousing Expenses	X		

To Packing & Forwarding	X		
To Delivery Van Expenses	X		
To Discount allowed	X		
To Travelling Expenses	X		
To Depreciation on Office Assets	X		
To Net Profit transferred to Capital A/c	X		
	X		X

Balance sheet as on _____

Liabilities		Assets	
Capital	X		Debtors (T.B) XX
Less: Drawings	(X)		Add/Less: Any Adj related to Drs X
Less: Income Tax	(X)		XX
Less: Goods withdrawn by proprietor	(X)		Less: Bad debts (Adj) (X)
Add: Additional Capital	X		X
Add: Interest on Capital	X		X X
Less: Interest on Drawings	(X)		Less: R.D.D (Adj) (X) X
Add: Net Profit	X		Goodwill X
Less: Net Loss	(X)	XX	Land X
General		X	Plant & Machinery XX X
Reserve Loans		X	Less: Deprecation X X
from Bank		X	Premises/Building X
Overdraft		X	Vehicles X
Sundry		X	Furniture & Fittings X
Creditors Bills		X	Loans & Advances X
Payable		X	Given Bills Receivable X
Outstanding Expenses		X	Prepaid X
Income Received in			Expenses Cash X
Advance Unpaid Expenses			at Bank Cash in
			Hands Closing
			Stock
			Raw X
			Material X
			W.I.P X
			Fin. X
			Goods Outstanding X
			Income Fixed X
			Deposit Given
			Investment
		XX	XX

- **Final accounts:**
 - i. The amount of depreciation is shown on the debit side of the P/L a/c.
 - ii. The amount of depreciation is also deducted from the concerned fixed in the balance sheet.
- Note: under 'provision' method provision for depreciation a/c is created. Balance of provision of depreciation a/c is deducted from the gross cost of the fixed assets in the balance sheet.
 - Hint in trial balance: some times the amount of trial balance is not given directly in the by way of adjustment in a problem. Instead indirect hint is given in the trial balance.

h. Goods lost by fire/accident/theft/stolen:

Goods may be lost in a flood, fire, accident or theft. If the goods are not insured, the firm has to bear the entire loss. If the goods are insured the firm will make a claim with the insurance company for compensation. The insurance company can accept the compensation either wholly or only partly. Further insurance company may have accepted the claim but not actually paid the amount till the year end. The claim may then be outstanding till the year.

Cases:

- a. The goods were not insured at all (no insurance)**
 1. Record the loss:

Loss of goods a/c	Dr
To trading a/c	
 2. Transfer loss to P/L a/c P//L a/c

P/L a/c	Dr
To loss of goods a/c	
- b. The goods were fully insured and the claim accepted and pain by the insurance company (claim accepted and paid in full);**
 - 1. Record the loss:**

Loss of goods a/c	Dr
To trading a/c	
 - 2. Record claim due from insurance company:**

Insurance company a/c	Dr
To trading a/c	
 3. Record payment by insurance company

Cash/bank a/c	Dr
To insurance company a/c	
- c. The claim was accepted by the insurance company only in part and insurance company has yet to pay the claim (claim accepted/paid partly):**
 - 1. Record the loss:**

Loss of goods a/c

Dr To

Trading a/c

2. **Record claim due from insurance company:**

Insurance company a/c Dr

To loss of goods

3. **Transfer balance loss to P/L a/c:**

P/L a/c Dr

To loss of goods a/c

i. Goods distributed as free samples

- Entry: free sample a/c Dr
To goods given as free sample a/c
- Final accounts: free sample a/c is shown on the debit side of the P/L a/c and goods given as free sample a/c is shown credit side of the trading a/c.

j. Goods withdrawn by proprietor:

- Entry: capital a/c Dr
To goods withdrawn by proprietor
- **Final accounts:** the amount debited to proprietor is deducted to proprietors capital a/c in the balance sheet. The goods withdrawn by proprietor a/c shown on the credit side of the trading a/c.

k. Rectification of errors:

1. Revenue receipts is included in capital receipts

Eg. Sales include sale of machinery

- Entry: sales of machinery a/c Dr
To sales

2. Capital receipts included in revenue receipts

Eg. Sale of machinery included in sales

- Entry: sales a/c Dr
To sales a/c

3. Capital expenditure is included in revenue expenditure (error of principle)

Example : carriage inward on new machine is debited to carriage inward a/c, instead of machinery a/c ;wages paid for construction of a building is debited to the wages a/c instead of machinery a/c.

- Entry: machinery a/c dr
To carriage inward

Building a/c dr
To wages a/c

4. Revenue expenditure shown in capital expenditure

Normal wages are debited to building a/c and carriage inward is debited to new machinery a/c

- Entry: wages a/c dr
To building a/c

Carriage inward a/c dr
To machinery

5. Unrecorded purchase(error of omission)

- Entry: purchase a/c dr
To creditors

- Final accounts:

- i. Amount of purchase is added to purchase a/c on the debit side of the trading a/c.
- ii. Amount is added to the sundry creditors of the balance sheet on the liability side.

6. Unrecorded sales

- Entry: debtors a/c dr
To sales a/c

- Final accounts:

- i. Amount of sales is added to the sales a/c on the credit side of the trading a/c.
- ii. Amount is added to the sundry debtors are shown on the asset side of the balance sheet.

Q1. From the following particulars prepare the manufacturing and trading account for the year ended 31-3-2014.

Particulars	Amt (₹)	Particulars	Amt(₹)
Raw material(1-4-2013)	12,000	Carriage inward	1,000
Work in progress (1-4-2013)	8,000	Return outward	2,000
Finished goods (1-4-2013)	9,000	Royalty on production	1,000
Purchase of raw material	80,000	Purchase of finished goods	8,000
Direct wages	10,000	Carriage outwards	500
Indirect wages	8,000	Fuel and power	2,500
Sales	1,74,000	Repairs and maintenance	1,500
Return inwards	5,000	Raw materials(31-3-2014)	6,000
Depreciation on factory assets	4,000	Work in progress(31-3-2014)	2,500
		Finished goods(31-3-2014)	5,000

Adjustments :

1. Outstanding direct wages amounting to ₹ 3,000.
2. Prepaid fuel and power amounted to ₹ 500.

Q2. Amar chemicals has the following ledger balances as on 31st march 2014.

Particulars	Dr (₹)	Cr (₹)	Particulars	Dr (₹)	Cr (₹)
Goodwill	50,000		Net sales		11,00,000
Factory shed	20,000		Miscellaneous income		4,000
Machinery	1,30,000		Bad debts reserves		5,000
Furniture	8,000		Purchase of materials	8,60,000	
Investments	10,000		Freight on materials	50,000	
Capital		1,95,000	Factory power	15,000	
Bank loan		3,00,000	Salary and wages		
Creditors		1,50,000	-Factory	1,50,000	
Debtors	1,35,000		-Office	65,000	
Stock on 1-4-2013			Repairs and renewals	2,500	
-Materials		1,30,000	Rent and taxes	16,500	
-Work in progress		7,500	Insurance	3,900	
-Finished goods		82,500	General expenses	18,100	
			Total	17,54,000	17,54,000

Additional information:

1. Closing stock: materials ₹ 2,10,000; work in progress ₹12,500; finished goods ₹ 2,07,500.
2. Depreciation to be provided at 2.5% on factory shed, 10% on machinery, 15% on furniture.
3. Repairs and rent and taxes are to be apportioned between factory and office in the ratio of 3:2.
4. Reserve for bad and doubtful debts to be provided for 4% on debtors.
5. Insurance premium covers a period on 1 month in advance.

You are required to prepare manufacturing, trading and profit and loss account for the year ended 31st march 2014 and balance sheet as on that date.

Q3. The trial balance of miss Dipali as on 31st December 2013 was as follows:

Debit balance	₹	Credit balance	₹
Raw materials	23,000	Sundry creditors	17,000
Work in progress	10,000	Bills payable	8,500
Finished goods	15,500	Sales of scrap	1,500
Sundry debtors	27,000	Commission	400
Carriage inwards	1,000	Provision for doubtful debts	1,600
Carriage outwards	1,000	Dipali's capital account	1,00,000
Bills receivables	16,000	Sales	2,00,000
Wages	12,000		
Salaries	10,000		
Repairs of plant	1,200		
Repairs of office furniture	600		
Purchase	1,00,000		
Cash at bank	2,300		
Plant and machinery	90,000		
Office furniture	9,000		
Rent lighting expenses	5,000		
Lighting expenses	1,800		
Factory insurance	2,000		
General expenses	1,600		
Total	3,29,000	Total	3,29,000

Additional information:

1. Closing stock as on 31st December 2013 was: raw materials ₹ 15,000, finished goods ₹ 18,200 semi finished goods ₹ 18,200.
2. Salaries ₹ 2,000 and wages for December 2013 ₹ 2,000 was paid in January 2014.
3. 25% of the lighting expenses and rent is to be charged to office premises and the remaining amt was to be charged to factory.
4. Depreciation is to be written off on machinery @ 10%p.a. and on furniture @ 5%p.a.
5. Provision for doubtful debts is to maintained at 10%.

You are require to prepare manufacturing trading acc and profit and loss acc for the year ended 31-12-2013 and balance sheet as on that date.

Q4. From the following balance of shri Karodimal prepare manufacturing account trading and profit and loss account for the year ended 31st December 2013 and balance sheet as on that date.

Particulars	Amt(₹)	Particulars	Amt(₹)
Drawings	36,000	Capital	4,50,000
Goodwill	40,000	Sundry creditors	1,25,000
Plant and machinery	2,00,000	Bank loan	75,000
Land and building	1,20,000	Reserve for bad debts	5,500
Cash and bank balance	37,000	Sales	3,24,000
Sundry debtor	59,000	Discounts	3,500
Trade marks	9,000	Return outwards	6,500
Salary to manager	16,000		
Purchase of raw material	1,50,000		
Opening stock			
-raw material	35,000		
-work in progress	60,000		
-finished goods	90,000		
Carriage inward	10,000		
Wages and salaries	75,000		
Factory expenses	12,000		
Factory rent and rates	15,000		
Office expenses	8,000		
Printing and stationary	7,500		
Discount	5,500		
Bad debts	4,500		
Total	9,89,500	Total	9,89,500

Adjustments :

- On 31st December 2013 stock were valued as:

Raw material	₹55,000
Work in progress	₹75,000
Finished goods	₹95,000
- Outstanding expenses: printing and stationary ₹ 1,500.
- Prepaid expenses: factory rent and rates ₹ 2,000.
- Manager is entitled to a commission @ 2% of net profit before charging his commission.
- Increase reserve for bad debts by ₹ 5,000.
- Interest on bank load still unpaid ₹ 1,200.
- Depreciate: plant and machinery @ 10%p.a.
- Write off trade marks @ 33 1/3% p.a.

Q5. From the following particulars of Jaydeep Mukharjee, prepare manufacturing and trading & profit and loss account for the year ended 31st march 2014 and balance sheet as on that date after giving effect to the adjustment indicated below:

Particulars	Amt(₹)	Particulars	Amt(₹)
Capital a/c as at 1-4-2013	3,66,000	Sundry expenses	1,750
Drawings	50,000	Patents	6,000
Purchase	10,52,000	Postage and telegrams	6,500
Rates and taxes	12,500	Wages	17,500
Salaries	50,000	Factory building	1,00,000
Carriage	10,000	Furniture and fixture	25,750
Fuel and coal	7,000	Cash discount received	7,500
Factory insurance	3,000	Plant and machinery	47,500
Advertisement	10,000	Sundry debtors	93,500
Factory power	8,000	4% govt. Promissory notes	10,000
Bad debts w/off	5,000	(subscribed on 1-4-2013)	
Cash discount allowed	1,000	Sundry creditors	52,500
Opening stock		Sales	12,66,500
- materials	30,000	Cash in hand	22,750
-finished goods	25,000	Cash at bank	97,250

Adjustments:

- Depreciation to be provided at the following rates:

Plant and machinery	10%
Patents	10%
Building	2.5%
Furniture	5%
- Provide 2 ½% on debtors for doubtful debts.
- Purchase invoices aggregating ₹ 12,500 were omitted to be entered in the purchase day book.
- Debtors include ₹2,500 due from proprietor.
- An amount of ₹ 2,500 received in respect of private loan advanced by the proprietor was wrongly credited to sundry creditors accounts.
- An amount of ₹1,750 received from a debtor was wrongly credited to a sales account.
- The annual interest on Govt. Promissory notes accrued due on 31st march 2014 but was collected only after 31st march 2014.
- Carriage includes ₹ 4,000 towards outward charge.
- Stock in trade as at 31st march 2014
 - Raw materials ₹25,000
 - Finished goods ₹ 20,000.

Q7. Vinayaka's Trial Balance as on 31st March 2021 is as follows:

Particulars	Dr. Rs.	Cr. Rs.	Particulars	Dr. Rs.	Cr. Rs.
Opening Stock:			Printing & stationery	5,200	
Raw Material	2,50,000		Bank Charges	2,500	
Work-in-Progress	80,000		Traveling Expenses	10,000	
Finished Goods	2,20,000		Discount	3,300	
Purchases	2,15,000		Sales return	11,000	
Building	1,50,000		Advertisement	5,500	
Plant & Machinery	3,60,000		Sales		7,80,000
Furniture	40,000		Capital-		8,50,000
Trade Mark	30,000		Sundry Creditors		52,000
Wages	83,000		Sundry debtors	82,500	
Factory Taxes	4,000		Discount		2,500
Motive Power	9,000		Miscellaneous Expenses	5,500	
Factory Insurance	5,000		Bills Payable		34,000
Salary to office staff	11,000		Bills Receivable	16,000	
Office Rent	10,500		Corporation bank	98,000	
Carriage Inward	2,500		Cash on hand	9,000	
				17,18,500	17,18,500

Adjustments:

- (1) Closing stock: ₹
- | | |
|------------------|----------|
| Raw Materials | 85,000 |
| Work-in-Progress | 30,000 |
| Finished Goods | 2,05,000 |
- (2) Factory taxes prepaid Rs. 2,000.
- (3) Depreciation: Furniture 10%
- Plant & machinery 15%
- Trade Mark 20%
- Building 5%

Please prepare manufacturing, Trading and Profit & Loss Account for the financial year 2021-04 and Balance Sheet as on 31-3-2021.

Q8. The Trial Balance Mr. Lakhamichand is as below. Prepare final accounts for the year ended 31-12-2021:

Debit balances	Rs.	Credit Balance	Rs.
Cash in hand	1,000	Capital Account	41,860
Machinery	30,000	Sales	1,38,780
Drawing	2,500	R.D.D.	560
Factory, Power and Fuel	450	Sundry Creditors	8,800
Office Salaries	6,255		
Carriage Outward	500		
Manufacturing wages	9,300		
Furniture & fixture	3,400		
Opening Stock:			
-finished goods	4,000		
-Work-in-Progress	7,250		
-Raw Material	2,800		
Carriage Inward	1,000		
Rent (factory ^{3/4})	4,000		
Sundry debtors	21,600		
Advertisement	775		
Printing & Stationery	1,200		
Factory Insurance	1,280		
Purchase of Raw material	82,950		
Balance at bank	8,530		
Discount allowed	610		
Miscellaneous Expenses	600		
	1,90,000		1,90,000

Adjustments:

1. Closing stock: Finished goods 6,500. Raw Materials Rs. 750 and work-in-Progress Rs.4,750.
2. A Motor car purchased on 1-10-2021 for Rs. 10,000 has been included in purchases.
3. Depreciation Machinery at 15% p.a. Motor car at 20% p.a. Furniture and fixtures at 15%p.a.
4. Provision for R.D.D. should be maintained at 10% the debtors.

Q9. The Trial Balance Sheet of Ketan on 31st December, 2021 is as follows;

Particulars	Dr.(₹)	Particulars	Cr. (₹)
Opening Stock:		Sundry creditors	17,000
-Raw Materials	23,000	Bills Payable	7,800
-Work-in-Progress	10,000	Sale of scrap	1,500
-Finished Goods	16,400	Commission	350
Sundry Debtors	27,000	Provision for doubtful Debts	1,650
Carriage on Purchases	1,500	Capital A/c	1,00,000
Bills Receivable	18,000	Sales	2,00,000
Wages	12,000	Current Account of Ketan	9,700
Salaries	10,000		
Telephone Charges	500		
Postage	500		
Repairs to Plant	1,200		
Repairs to Office furniture	6,00		
Purchases	1,00,000		
Cash at Bank	12,000		
Plant & machinery	90,000		
Office Furniture	9,000		
Rent	5,000		
Lighting	1,300		
General Expenses	1,600		
	3,38,000		3,38,000

The following additional information is provided to you:

1. Closing Stock:

Raw Materials ₹15,800

Finished goods ₹18,200

Semi-Finished Goods ₹7,500

2. Provision for doubtful Debts is to be maintained at 10%.

3. Lighting is to be divided between office premises and factory. Lighting is to be charged to office premises for ₹300 and remaining ₹1,000 are to be charged to factory.

You are requested to prepare the Manufacturing Account, trading Account, Profit and Loss Account and the Balance Sheet relating to 2021.

Q10. From the following trial balance of taxman enterprises prepare manufacturing, trading and profit and loss A/c for the year ended 31st December, 2021 and Balance Sheet as on that date:

Particulars	Dr. ₹	Cr. ₹	Particulars	Dr. ₹	Cr. ₹
Opening Stock:			Conveyance	9,500	---
Raw material	18,000	---	Professional Fees	6,000	---
Finished goods	3,500	---	Stationery	3,750	---
Purchased of Raw material	95,800		Electricity	1,250	---
Carriage	12,000	---	Capital		62,500
Wages	18,000	---	Drawings	30,000	---
Salaries	14,000	---	Bank Balance		27,000
Power & Lighting	4,500		Creditors		61,000
Insurance: Machinery	700		10% Investments (1-1-2021)	15,000	
Repairs to Machinery	1,300		Debtors	54,000	---
Sales	---	2,03,500	Furniture	30,000	---
Return Outward		2,500	Machinery	45,000	---
Return Onward	3,500	---	Cash in Hand	200	---
Scrap Sold	---	8,500			
Interest	---	1,000			
				3,66,000	3,66,000

Adjustment:

- Closing Stock – Raw Materials Rs. 28,000
Finished Goods Rs. 2,300
- 1/3 of carriage is for sale of goods and 2/3 is for purchased of raw materials.
- Depreciation Machinery and Furniture by 10% p.a.
- Create provision of 10% for bad and doubtful debts.
- In fire, finished goods costing Rs. 5,000 were destroyed but Insurance Company admitted the claim of Rs. 3,000 only.
- Debtors include Rs. 5,000 due from Amit an amount of Rs. 4,000 is also due to him and it is include in creditors.

Q11. From the following Trial Balance of Deep enterprises, prepare Manufacturing Account, Trading and profit & Loss Account for the year ended 31st December, 2021 and the Balance Sheet as on that date.

Particulars	Rs.	Particulars	Rs.
Drawing	30,000	Capital	5,00,000
Manager's salary	6,000	Sundry creditors	1,00,000
Cash in Hand	2,000	Loan	80,000
Cash at bank	35,000	Reserve for Bad debts	6,000
Sundry Debtors	95,000		
Patents	4,000	Purchases returns	7,000
Plant & machinery	1,00,000	Sales	2,64,000
Land & building	2,00,000		
Extension to Buildings	20,000		
Legal charges for acquisition of Buildings	5,000		
Purchases of Raw materials	1,00,000		
Raw Materials (1-1-2021)	40,000		
Work-in- progress (1-1-2021)	75,000		
Finished Goods (1-1-2021)	95,000		
Carriage Inward	8,000		
Wages and Salaries	90,000		
Factory Expenses	8,000		
Factory rent and rates	10,000		
Office Expenses	5,000		
Printing and Stationery	10,000		
Discount	6,000		
Advertisements	5,000		
Bad Debts	4,000		
Goodwill	4,000		
	9,57,000		9,57,000

Adjustments:

1. On 31-12-2021 stocks were valued as: Raw Materials Rs. 50,000 Work in Progress Rs. 80,000; and Finished Goods ₹1,00,000.
2. Outstanding Expenses – Advertisements ₹ 500 and Printing ₹ 300.
3. Depreciation: Plant & Machinery at 10% and Patents at 20%.
4. Manager is entitled for a commission of 5% on Net Profit before charging his commission.
5. Increase Reserve for Bad Debts by ₹ 3,000.
6. Interest on loan of ₹ 1,000 is still unpaid.